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ABSTRACT

The booklet outlines and presents examples of basic economics concepts. Objectives are to help elementary and secondary teachers introduce economic concepts in the classroom and to help teachers grasp some of the fundamentals of economics. The document is divided into seven sections. Each section presents concepts, offers three supporting examples, one of which is child-oriented, and concludes with a restatement of the concept. Section I discusses scarcity and introduces topics such as the need to allocate resources, supply and demand, trade, and population movements. Section II explores natural resources, including exhaustible and renewable resources, conservation, and government regulation. Human resources are studied in Section III, which covers employment-related subjects, individual adaptation, and the need for education. Section IV surveys capital resources, defining capital and discussing topics such as representative goods, capital goods, capital formation, standard of living, and profits. Section V outlines forms of business organization, while Section VI investigates money and credit through examples elucidating the role and value of money, inflation and deflation, money supply, coin and currency, the Federal Reserve System, and banks. Section VII considers the government role in economics, including government goods and services, government regulation, lawmaking, taxation, and fiscal policy. (CK)

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Introducing Economics

the study of economics is really the study of people living and working together

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Economics. To many people it's a word which creates images of dry textbooks, long formulas and obscure subjects of interest only to economics professors. But economics is more than these. It is money, food, factories, people, war, farming, energy, laws, profits, taxes, prosperity...and depression. In fact, the study of economics is really the study of people living and working together, providing for their needs and wants. It is finding out how and why people trade, produce, save and spend.

Learning economics can be as complex as our complex society, but it need not be. Certain economic concepts are fairly simple and easy to learn. They apply to all areas of living and can be recognized in many of our day-to-day activities. Introducing Economics was written with just this premise in mind. It presents some of these basic concepts written in clear, concise statements, each illustrated by three examples.

This edition of Introducing Economics is based on a draft prepared for teachers by the Economic Education Council of Massachusetts as a tool to help implement the Scope and Sequence Chart. A copy was brought to the Federal Reserve Bank of Boston by Ken Sheldon, Director of the Center for Economic Education at Boston University. At the Fed we felt the original draft would serve as an excellent foundation for an expanded publication written not only for teachers, but for anyone interested in learning more about economics.

As it now stands, Introducing Economics is basically an outline. Concepts are grouped and listed for easy reference and understanding, but they have more substance than typical outline headings. Examples are provided for each concept in short, complete paragraphs.

The major categories are the seven GENERAL AREAS. Each of these areas, such as NATURAL RESOURCES or GOVERNMENT, covers a cluster of related economic concepts. Within each area are UNDERSTANDINGS -- the economic concepts which apply to the area. These understandings are each assigned a capital letter. All concepts are written twice, first as an introduction to the concept and second, after some examples have been presented, as a RESTATEMENT to summarize. For each area the concepts are arranged in a logical progression for smooth reading and comprehension.

Finally, for each understanding there are three EXAMPLES which demonstrate the concept at work. These are everyday examples which not only illustrate the understanding, but also show some of the situations and circumstances under which it operates. The examples are presented in order of difficulty with the first example being the simplest. Sometimes, in place of a third example, side issues or controversies associated with the understanding are discussed.

The purposes of Introducing Economics are twofold. First, the booklet is designed to help elementary and secondary school teachers discover ways of introducing economic concepts in the classroom. By reading through the understandings and examples, teachers may find some that apply to a particular unit or course they are teaching.

The questions children ask today are vital ones taken from the news and T.V., and many of these questions concern economic subjects. Teachers need to be able to answer such questions with understanding backed by clear examples. The examples in this booklet are written with the teacher in mind. Whenever possible the first example for each understanding has been oriented around a classroom, school, home or other place familiar to elementary school children. The second and third examples are more generally useful.

The second purpose of Introducing Economics is to help teachers and other interested readers obtain a better grasp of some of the fundamentals of economics. It would be impossible to include all the aspects of economics in one short publication, but we hope the basic understandings presented here will at least help the reader get a "feel" for the nature of economic problems and considerations.

THE SCARCITY PROBLEM

A. UNDERSTANDING: The basic economic problem is that people, with unlimited wants and needs, live in a world of limited resources.

1. Janet wonders why people have to work for a living. The teacher explains to her that all the food, clothing and other materials people need are not available in abundance. People must work to satisfy their needs.

2. Every year a local charity holds food and clothing drives for the poor. In an imaginary world of unlimited resources everyone could have an ample supply of everything. In the real world, though, some people cannot obtain even basic food and clothing because the supply of these goods is limited.

3. On hot days people often demand more electricity because they want to run their air conditioners. Blackouts may result in some areas because there is not enough generating capacity to supply people with all the electricity they want.

RESTATEMENT: There is not enough of most resources to satisfy all the possible wants of people.

B. UNDERSTANDING: Every society faces the problem of how to allocate its scarce resources.

1. Karen has a garden in her backyard. She must decide whether to grow vegetables, which she can eat, or flowers, which she can give to her friends and neighbors.

2. Builders devote much land, planning and construction work to producing single-family homes because most people prefer them to apartments or other multiple-family homes.

3. The idea of *opportunity cost* is basic to an understanding of the allocation of resources. A society can use its resources in many different ways. Every time a resource is used for one purpose, the society "pays" for the opportunity it lost to use the resource in some other way. A farmer's decision to grow wheat means a sacrifice of his chance to grow corn, barley or some other crop. The government's decision to draft men for war means a loss to society of the other possible activities of these men. Such countless lost opportunities are the cost of living in a world of scarce resources.

RESTATEMENT: The people of every society must choose, from among many possible alternatives, the ways in which they can best use their scarce resources.

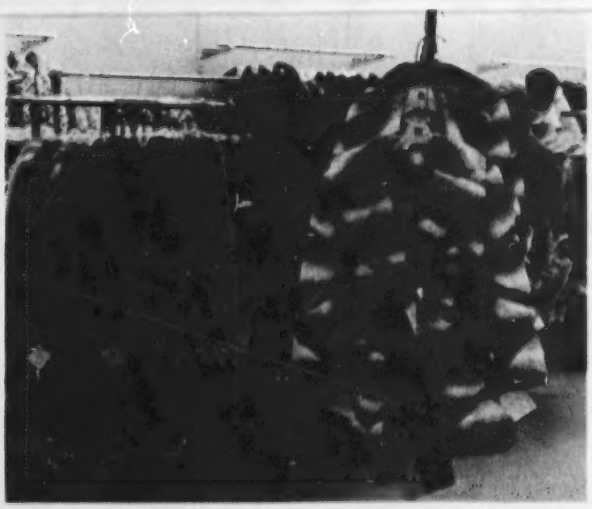
C. **UNDERSTANDING:** The allocation of resources is mainly determined by the dynamic process of *supply and demand*. Consumers make known the kinds of goods and services they want (*demand*) by their purchasing choices. Producers respond, using resources to *supply* those goods and services.

1. Richard brought a pumpkin to class for Halloween. He told everyone that he had a hard time deciding which one to buy because there were so many pumpkins in the store. The teacher explained that farmers have been growing pumpkins all during the summer and early fall, knowing that many people would want to buy them in October.

2. In the winter people want heavy, woolen clothing to keep warm. In the summer people want light, cotton clothing to keep cool. The garment industry adjusts its production schedule to meet the anticipated clothing demands of people.

3. Producing goods takes time. Items being produced now will be sold sometime in the future, so businesses must try to predict future consumer wants. One way businesses learn about consumer wants is through market research. If a business can find out what people want in a product, it can design the product to satisfy those wants and thereby increase sales.

RESTATEMENT: Resources are used so as to provide those goods and services people most want and need.



D. UNDERSTANDING: The supply and demand process works through the mechanism of prices. The price of a product reflects the supply of, and demand for, the product.[1]

1. During a class hobby show Johnny points out a rare stamp in his collection. The teacher explains that the price of Johnny's stamp is high because it is rare (the supply is low) and many people would like to buy it (the demand is high). Supply and demand forces have determined the stamp's price.

2. Supply and demand forces also operate in the cattle market. When there is a plentiful supply of cattle, the price of meat will be low. When there is not a plentiful supply, meat packers bid up prices to try to meet their customers' needs.

3. For any product or service there is some minimum price which must be charged to cover the costs of production. If that price is too high, the product may not sell very well, even though many people would like to buy it. For example, small electronic calculators were expensive to make when first developed. Their price was high so few people bought them. Now many people are buying the calculators because technological improvements have lowered the costs of production, thereby lowering the minimum price. Here price has influenced demand.[2]

RESTATEMENT: The price of an item influences, and may be influenced by, supply and demand.

E. UNDERSTANDING: If the demand for an item is constant even if its price changes, the demand is called *inelastic*. An *elastic* demand responds to changes in price.

1. Paul has been saving his allowance to buy a new engine for his train set. Last month he saw the perfect engine in a hobby store for $25. When he had saved enough money, Paul went to the store, but learned that the price had risen to $28. Because Paul wants the engine so badly, he plans to keep saving until he has the $28 — his demand for the engine is inelastic.

2. Demand for food, as a whole, is inelastic. Because people must eat, they must pay whatever price is required to get the food they need. The price of individual food products is more elastic. If beef prices are going up, some people may choose to buy cheaper meats instead.

3. The demand for most products falls somewhere between the two extremes of being completely elastic or not elastic at all. The table lamp provides a good example. If someone wants to buy a lamp, he usually has an idea of the price range he can afford. A slight price rise will not seriously affect his demand for the lamp (inelastic demand). A major price increase, though, might make him reconsider and perhaps avoid buying the lamp (elastic demand).

RESTATEMENT: When people want a product at any cost, demand for the product is said to be inelastic.

[1]Generally, the price of an item will increase (↑) if the supply of it decreases (↓), or the demand for it increases (↑) or both. In the same way, the price of an item may decrease (↓) if there is an increase in supply (↑), or a decrease in demand (↓) or both.

[2]But as demand grows, it will begin to influence the price because the calculators will probably be cheaper to produce in volume!

F. UNDERSTANDING: Trade between people, regions and nations is one solution to the problem of limited resources.

1. A social studies class learns about the products of different states. They see that through trade people can not only enjoy those products unavailable in their area, but also add to the supply of those products they do have.

2. The marketplace is a vital part of many villages and towns throughout the world. On a certain day of the week the farmers and merchants of an area gather in the marketplace to buy and sell their products. Such a common gathering place gives everyone a more convenient way to obtain the goods he needs through trade.

3. In 1972 a number of events combined to cause a major decline in world food production. A harsh winter and dry spring in Russia, too little rainfall in India and the Philippines and the mysterious disappearance of Peruvian anchovies (important in the production of animal feed) all contributed to reduction in vital food production. By selling some of its grain in trade with needy countries, the United States helped to lessen the impact of this world food crisis.

RESTATEMENT: When people do not have enough of the resources they need, they may trade with others to increase their supply.

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G. **UNDERSTANDING:** The search for limited resources often causes shifts and movements in populations.

1. A class learns that some Indian tribes of the Great Plains were nomadic. These tribes moved from place to place in search of bison, their major source of food and clothing.

2. The scarcity of spices and other luxuries from the Orient was one reason why adventurous Europeans decided to undertake voyages of exploration in the 15th century.

3. The potato blight of the 1840s brought millions of Irish and German peasants to the point of starvation and death. By the 1850s nearly two million of these hungry people had come to the United States in search of a livelihood.

RESTATEMENT: People sometimes move to new areas because they are in search of resources they need.

H. **UNDERSTANDING:** If the demand for some resource is much greater than the supply of it, a substitute resource may be sought.

1. A kindergarten class is going to draw pictures. Some children use colored pencils because there are not enough crayons for everyone.

2. The price of gasoline has risen because the demand for it is much greater than the supply. Many people are trying to use their cars less, switching to other forms of transportation, such as trains, subways and bicycles to avoid the rising cost of gasoline.

3. Diamonds, rubies and other gems have always been in great demand for ornamental uses. Because the supply of these gems is so limited, costume jewelry made of imitation jewels was developed as a substitute for jewelry made of precious stones.

RESTATEMENT: When people want more of a needed material than is available, they may try to find a substitute for it.

I. **UNDERSTANDING:** Wars and other emergencies tend to aggravate the scarcity of resources by disrupting normal trade and production and by requiring quick changes in the allocation of resources.

1. A serious flood in the Mississippi Valley can cause extensive damage to the region. Other areas of the country must supply the flooded communities with people, food and medical supplies until trade is restored to normal.

2. During a war, steel is needed for guns, planes and tanks. This steel cannot be used for cars and other consumer goods, so shortages of these items may develop.

3. Before the Revolutionary War the American colonies depended on England for many needed goods. During the War some severe shortages developed because trade was disrupted.

RESTATEMENT: During an emergency there may be less of the goods and services people want because business has been disrupted and resources must be used to meet the crisis.

NATURAL RESOURCES

A. UNDERSTANDING: Natural resources provide the raw materials needed to produce goods and services.

1. A sixth grade learns about the resources — sun, rain, earth and seed — needed to produce a good wheat crop.

2. People who live near the coast use the ocean as a source of food, work and recreation. The ocean is one of the most important natural resources available to people.

3. The economy of Maine is based, to a great extent, on its huge forested areas. Wood products of many types — paper, lumber, boats and even toothpicks — are manufactured from the trees growing in forests covering 80 percent of the state.

14 **RESTATEMENT:** Natural resources are used to satisfy people's needs and wants.

B. UNDERSTANDING: Natural resources can be divided into three basic groups: the first group are exhaustible resources, such as fossil fuels, building stones and most minerals.

1. The formation of coal takes many thousands of years. It is impossible to replace coal taken from the earth once it has been discovered and processed; coal is an exhaustible resource.

2. Intensive drilling has removed all the oil in some areas. If demand for oil does not decrease, the world's supply will in time be exhausted.

3. Some economists want to discard gold completely as a monetary standard because the supply of gold is too limited to support a growing world economy. Until someone discovers a way to manufacture gold economically from other materials, the only gold available will be that which has been, or can be, taken from the earth.

RESTATEMENT: Some natural resources cannot be replaced, once used.

C. UNDERSTANDING: The second group of natural resources are those that are renewable, such as animals, plants and soils.

1. Joe tells the class about his family's chicken farm. Most of the hens lay eggs for sale, but some hens are kept just for breeding. By providing for the hatching of new chicks, Joe's family maintains the supply of hens they need for their farm.

2. When plants die, their decaying matter goes into the soil. The cycle of plant growth and decay is a fertilizing process which renews the soil, keeping it rich and productive.

3. Many conservation laws protect wildlife. One law permits hunters to shoot only a certain number of deer each year to insure that some deer will survive to have offspring.

RESTATEMENT: Some natural resources can be replaced.

D. UNDERSTANDING: The third group of natural resources are those that are inexhaustible, such as nuclear and solar energy, water and air.[1]

1. A third grade looks at a terrarium in which moisture is recycled. The world's supply of water is constantly renewed through the process of evaporation and condensation.

2. Plants take in the carbon dioxide which we exhale and give off the oxygen which we breathe, thereby helping to maintain our supply of fresh air.

3. The sun contains so much energy in the form of heat and light that billions of years will pass before this supply of energy is exhausted. In effect, the sun is an inexhaustible supply of energy.

RESTATEMENT: Some natural resources are available in abundance.

E. UNDERSTANDING: The natural resources available to a society help to determine its economic choices.

1. A class tries to discover how natural resources have influenced the businesses and communities in their state. A mountain ski resort and a shipyard near a natural harbor are mentioned.

2. In the Midwest many people work on farms because the flat, rich land encourages the growth of corn, soybeans and other crops.

3. Many people in Florida work in the recreation business because so many tourists come to the state each year to visit the beautiful beaches and tropical Everglades.

RESTATEMENT: Natural resources help to determine a society's economic way of life.

[1]Water and air will always be available, but not necessarily in a usable form.

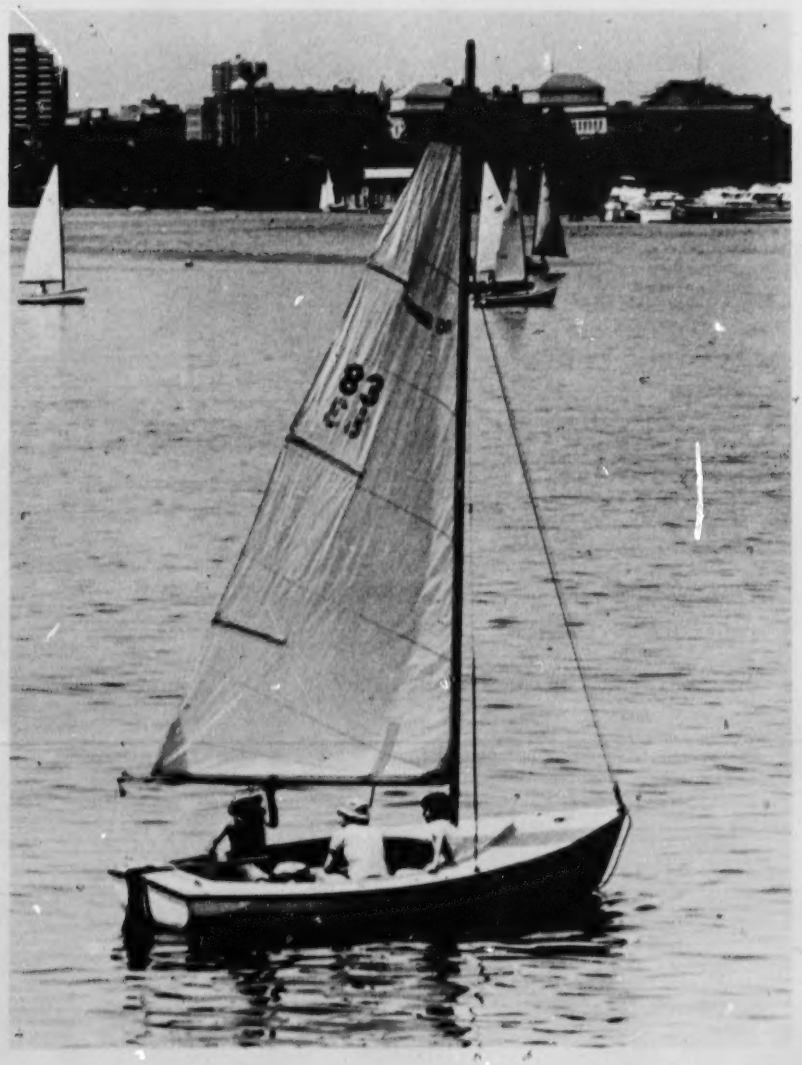
F. UNDERSTANDING: The way people use natural resources varies with their changing wants.

1. When it is hot, Carol likes to swim in a nearby lake. At other times she prefers boating on the lake with friends. Carol's use of a natural resource — the lake — changes with her moods.

2. During most of the year pine trees are valued as a source of lumber. At Christmas time, however, they are valued for another reason — as Christmas trees.

3. In the past the untamed wilderness was a dominant feature in the lives of many individuals. These people did not have the time or the desire to treasure the wilderness, being concerned mainly with using it to make a living. Now, in more prosperous times, many people want to preserve some wilderness areas to use for recreation and aesthetic enjoyment.

RESTATEMENT: People use natural resources differently as their wants change.



G. UNDERSTANDING: Conservation is the wise management and preservation of natural resources. Without conservation some natural resources may be misused or exhausted.

1. Kim closes the door carefully when she comes in from recess. She knows that she is helping to save fuel by keeping the heat from escaping outdoors.

2. Newly manufactured cars must now be equipped with emission-control devices to help protect the quality of our air. Clean air is a particularly vital natural resource because all life depends on it.

3. Many modern farming techniques are based on the belief that the wise management of natural resources is both productive and beneficial. For example, farmers have learned how to reduce soil depletion through such practices as crop rotation and fertilization.

RESTATEMENT: Conservation practices are necessary to preserve our natural resources.

H. UNDERSTANDING: The use of some natural resources is regulated by the government. Some conservation practices need to be enforced by the government for the benefit of the general public.

1. The government has set aside certain areas to be preserved as wildlife refuges. Regulations protect these areas from misuse by prohibiting unlimited hunting, commercialization and careless destruction.

2. The control of the uses of atomic energy by the government is an example of the near-complete regulation of a natural resource. The potential dangers of atomic energy are so great that some regulation is considered necessary.

3. The government has passed a number of regulations to help reduce the amount of air and water pollution. It is tempting to misuse air and water in the short-run because these natural resources are so abundant. In the long-run, however, a society will "pay" more, both economically and environmentally, for the misuse of its vital natural resources.

RESTATEMENT: Some government regulations are designed to protect our valuable natural resources.

A. UNDERSTANDING: A major factor in the determination of a society's economic welfare is the strength of its human resources — that is, its people.

1. A class watches construction workers build an addition to their school. They learn the importance of each worker and how his work contributes to the development of the school and community.

2. Many companies have training programs for their employees because they know that they can improve the overall efficiency and quality of their business by helping workers improve their skills.

3. Occasionally, some nations experience what is known as a "brain-drain." This phrase refers to the emigration of a significant number of talented and learned people from the country. A nation suffering from a "brain-drain" must be concerned about the effect such a loss might have on its economy.

RESTATEMENT: People are one of the most important economic resources of a society.

Courtesy, New England Merchants National Bank

B. UNDERSTANDING: A society's economic welfare is increased by the accomplishments of each person in the society.

1. During the summer Ann catches fish which she sells to her neighbors and friends. Her customers are thankful for the chance to buy fresh fish, and Ann is pleased to be able to earn some money.

2. When people save money in a bank, they help themselves by earning interest on their savings. They also help others by allowing their savings to be used by those who want to borrow money.

3. Mr. Sloan is the owner and president of a prosperous company which manufactures farm equipment. His company employs hundreds of people and serves farmers throughout the state. Mr. Sloan's business creates wealth not only for himself, but also for his employees and customers.

RESTATEMENT: Usually, when a person improves his own achievements and fortunes, he also improves the overall prosperity of his society.

C. UNDERSTANDING: The kind of work a person is able to do depends on his skills, talents and knowledge and the demand for them in the job market.

1. Sharon is the only person in the class who knows how to operate a movie projector. Every time the class wants to see a movie, the teacher asks Sharon to run the projector.

2. Bill has always wanted to be a newspaper reporter. He has all the necessary qualifications except one — he cannot work well under the pressure of deadlines. Even though Bill's other talents are sought by many newspapers, he has decided to look for work in a different field because he lacks this one special ability.

3. In past years the aerospace industry suffered severe losses resulting in the unemployment of many engineers. The skills of these people were so specialized for the aerospace industry that, when demand for their skills declined, the engineers could not find comparable work.

RESTATEMENT: A person's work depends on the number of people with his abilities (supply) and the need for those abilities (demand).

D. UNDERSTANDING: A high level of unemployment indicates that many people who are willing and able to work are unable to find jobs, even though actively searching.

1. Nancy will be a senior in high school next year. She has been searching for a summer job for three weeks, but few are available. In this situation Nancy loses because she cannot find work; her society loses also because it cannot benefit from Nancy's skills.

2. Alice recently received a degree in education. After graduation she had hoped to find a teaching job, but no openings were available. Alice has had to take a job as a waitress to support herself. Alice is underemployed because she is working at less than her full capacity. Part-time workers who would like to work full-time are also considered to be underemployed. Underemployment is not as obvious a problem as unemployment, but it nevertheless implies a waste of human resources.

3. Full employment does not necessarily mean 100 percent employment. Some people will always be temporarily unemployed simply because of the nature of the labor market. Seasonal changes in jobs, technological advances, the lack of information about job openings and the time needed to move between jobs are all factors adding to unemployment. For these reasons, 4 percent unemployment is often considered a practical "full-employment" goal.

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RESTATEMENT: When unemployment is high, many people who want to work cannot find jobs.

E. **UNDERSTANDING:** A person usually receives some kind of monetary reward in exchange for the work he contributes to society; this wage reflects the person's capabilities as well as the demand for them.[1]

1. Betsy is in great demand as a baby-sitter. Many families in the neighborhood will ask only Betsy to baby-sit for them. Recently, she raised her fee by 25¢ per hour, but most families are willing to pay the higher price because they still want Betsy's services.

2. Because many people have the skills needed for menial work, the wages for such jobs are usually low. However, someone with a special skill, such as an experienced concert pianist, can charge a very high fee, provided always that his skill is in demand!

3. The minimum wage, or lowest permissible wage set by law, is a mixed blessing. People hired at the minimum wage benefit, perhaps getting more than their employer would have otherwise paid. On the other hand, some employers may curtail their hiring because they cannot afford to pay as much money as the minimum wage requires — so fewer jobs may be available.

RESTATEMENT: A person's salary level depends on the number of people with his abilities (supply) and the need for those abilities (demand).

[1]There are other possible rewards for work, such as fame, personal satisfaction and gratitude, but money is the most generally accepted measure of value.

F. UNDERSTANDING: Other variations in salary level may be the result of differences in job desirability; the more dangerous, demanding or unpleasant a job is, the higher the salary for that job may have to be to attract workers despite the job's unattractive elements.

1. Peter often earns some extra spending money by doing odd jobs for his neighbors, the Andersons. Whenever a chore is especially disagreeable, Mrs. Anderson pays him a few extra dollars for his work.

2. Construction workers who work on the upper stories of a skyscraper are usually paid a higher wage than other construction workers because of the dangers involved in working at such heights.

3. A society changes its definition of tolerable working conditions as it grows and prospers. In the early history of the United States many people worked ten or eleven hours a day regularly. Now an 8-hour day is customary for the nonprofessional worker. For any hours beyond this standard an employer usually pays 1½ times the base hourly pay as compensation.

RESTATEMENT: Salaries may be higher for jobs with undesirable aspects to attract workers to those jobs despite their unpleasant qualities.

G. UNDERSTANDING: The kind and number of jobs available is always changing because of changes in production techniques, new discoveries and shifting consumer preferences.

1. Tom has always helped his mother clean the dishes after dinner, but recently his family bought a new dishwasher. Now Tom does not have to wash the dishes, but he has had to learn how to run the dishwasher.

2. Before the railroads were developed, canals were a popular form of transportation for both freight and passengers. When the railroads proved to be more efficient, the canal companies went out of business and their workers had to seek other jobs. The railroads, in the meantime, were expanding and hiring many new employees.

3. Automation is the replacement of human workers by a mechanical or electronic process. It is usually seen as simply destroying jobs. In fact, automation also creates jobs — jobs for such people as machinery designers, assemblers and repairmen, as well as computer programmers and operators.

RESTATEMENT: Jobs are continually being created and destroyed due to changes in the economy.

H. UNDERSTANDING: Sometimes workers have to adapt to the ever changing pattern of job opportunities in a complex society.

1. Lynn tells a friend that her family will be moving to New York because her father has bought a new Italian restaurant there. Her father used to manage a restaurant in town, but a fire destroyed the business three weeks ago.

2. Migrant workers move from place to place during the harvest season looking for work. As the harvest in one area is finished, workers move to areas where the crops are still maturing and help is needed.

3. Sometimes a local manufacturing plant or business moves to another area. The former employees of the business must either move with the company or look for jobs in a different company nearby.

RESTATEMENT: Sometimes people must change jobs as circumstances change.

I. **UNDERSTANDING:** Workers increasingly need more training and education because of the growing use of complex production systems.

1. A fourth grade visits an automobile assembly plant and sees the intricate machinery at work there. They learn that new workers must have on-the-job training for several weeks before they fully understand how to run the machinery.

2. Many technical schools have been formed to fill the need for trained repairmen. Students at these schools are taught to fix modern, sophisticated machinery, such as computers.

3. In the past many successful people were able to excel in business with a minimum of formal education. The ambition and imagination which helped these people succeed are still valued, but the opportunities for advancement without a college degree are much more limited today. Many feel that the education and experience represented by a college degree are needed for the difficult management decisions of today.

RESTATEMENT: Modern work is complex and requires well trained workers.

CAPITAL RESOURCES

A. UNDERSTANDING: Capital can be defined as those resources, other than land and labor, which are used to generate income and to enable the production of new wealth and property.[1]

1. A sixth grade discusses the various factors needed for production. The children learn that the three major requirements are land, labor and capital.

2. Bob wants to start a shoe polishing service. He plans to use his cash, bank deposits and savings bonds as the capital he needs to begin his business.

3. A new company plans to open a plumbing equipment business in a nearby town. It will need to obtain the necessary capital in the form of money, machines and equipment before beginning operations.

RESTATEMENT: Capital is property or wealth which enables the creation of new property or wealth.

B. UNDERSTANDING: There are two different kinds of capital. The first kind includes such items as money, stocks, bonds, mortgages and other types of evidence of ownership of wealth. These items are known as *representative* goods.

1. Nora keeps a savings account in the Maintown Savings Bank. She plans to use the money and interest she accumulates in her account as the capital she needs to start a business.

2. Mrs. Jackson owns 600 shares of National Tin & Tungsten stock. Mrs. Jackson's shares of stock are a form of capital because they provide income for her. Corporations, such as NT&T, issue stock to raise some of the money they need to operate. A corporation's stockholders are actually its owners, and as such they receive a share of the corporation's earnings — that is, dividends. Each stockholder receives dividends in proportion to the amount of stock he owns.

3. The Date-Rite Calendar Company owns bonds issued by several different corporations. These bonds are a form of capital because they produce income for Date-Rite. Corporations issue bonds to raise money. The buyer of a newly issued corporate bond is, in effect, loaning money to the corporation. Later the amount of the "loan" will be repaid by the corporation, along with a certain amount of interest. This interest is the income bonds earn for their owners.[2]

RESTATEMENT: Money and papers representing ownership of wealth are one type of capital.

[1]The word "capital" often creates confusion because it has become a catchall word having different meanings in different situations. The understandings will show some of the most common usages, but the reader should be aware that a variety of meanings exists.

[2]The reader should note an important difference between stocks and bonds. Both are issued by corporations to raise money, but a stockholder is an owner of the corporation and may share in the company's future profits. A bondholder simply has a claim on the corporation for the amount of the bond plus interest.

C. UNDERSTANDING: The second kind of capital includes such items as tools, machines, buildings and other equipment actually used in the physical production process. These items are known as *capital* goods.

1. A group of children plan to build scenery for the spring play. They will need paintbrushes, paper, glue and other materials. In effect, these materials are capital goods.

2. Mr. Barton is a free-lance photographer. Before he can begin to produce pictures, he must buy a camera, film and other photographic equipment.

3. A dairy company plans to begin offering ice cream as an addition to its product line. The company will need to purchase the necessary equipment and supplies to make and sell the ice cream.

RESTATEMENT: Equipment and supplies used in production are a second type of capital resource.

D. UNDERSTANDING: Capital formation is the creation of capital goods through the use of savings. The process of capital formation is the basis of a growing economy because new capital goods increase the capacity of the economy to produce.

1. Timmy has been saving his money to buy a power mower. With this mower he can start a neighborhood lawn mowing service. By using his savings to buy a mower for his business, Timmy is introducing a new capital good into the economy.

2. Mr. Martin deposits $100 in his bank savings account each month. He may not know it, but he is playing a vital role in the process of capital formation. The money deposited by savers, like Mr. Martin, can be used by the bank to make a loan to a business which plans to borrow money to expand or improve its service.

3. Mr. and Mrs. Donovan plan to buy some stock offered by the Futura Appliance Company. They will use some of the money they have saved from their motel business to buy the stock. The Futura Company is selling the stock to raise enough money to buy some new equipment. The Donovans' savings will be used for capital formation.

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RESTATEMENT: An economy grows when savings are used to create productive new buildings, equipment and other capital goods.

E. UNDERSTANDING: By increasing its capacity to produce, a society tends to raise the material standard of living enjoyed by its members (as long as population grows less rapidly than production).

1. A third grade is studying its own town as it was in the past and as it is today. The children learn how much easier the present way of life can be because such inventions as farm machinery and computers have increased our ability to produce.

2. The growing and processing of food has become more efficient through the development of many laborsaving machines and operations at all stages of food production. Now more consumers can enjoy a wider variety of fresh and preprocessed foods because our capacity to produce food has increased.

3. To raise its standard of living a society must consider not only how to increase its capacity to produce, but also what exactly it is producing. A society's resources can be used in many different ways — to help give people as much food, clothing and goods as they want, or to help provide clean air and water and safe cities, or to create new and better services. Whatever the choices the resources must be used to satisfy people's needs and wants or else any production increase is pointless.

RESTATEMENT: A society usually improves its standard of living when it increases production.

F. UNDERSTANDING: In a private enterprise system the hope for profits encourages new production, investment and economic growth.[3]

1. The school football team wants to raise money to buy some new equipment. The team decides to buy some food and hold a bake sale. The sale will be profitable if the team can sell more than enough food to cover the costs of the sale. With enough profit the players can buy the equipment they want.

2. Mr. Dupree, the owner of the Eatwell Food Store, has learned of a vacant lot for sale. He has decided to buy the lot and open a second food store in another neighborhood because he thinks he can make the new business profitable.

3. Mrs. Jones has bought six shares of stock, newly issued by a tire company.[4] The company is selling some stock to raise the money it needs to build a plant to produce a new tire it developed last year. Mrs. Jones hopes that the company will grow and prosper so that she will receive regular dividends. She also hopes that the value of her stock will increase, so that if she must sell her shares, she will make a profit on her investment.

RESTATEMENT: An economy grows because people make investments and start new businesses in the hope of making a profit.

[3] Profits are that wealth remaining after the total costs of an enterprise have been subtracted from its total earnings. (Earnings - Costs = Profits)

[4] A corporation only receives money from the original sale of any stock it issues. Once sold, the shares of stock are then bought and sold by members of the general public.

G. UNDERSTANDING: Profits can be used in many different ways. To improve and expand, a growing business will usually set aside a major part of its profits for capital formation and reinvestment.

1. Last month some children started a gardening service in the neighborhood. After they had earned their first few dollars, they immediately wanted to spend the money on candy and toys. Instead they decided to use the money to buy new tools to improve their service. The children hope to make a greater profit later by using the money they have now to buy tools.

2. A couple bought a two-family house, planning to live in one side and rent the other side as an investment. To buy the house, the couple had to postpone buying the new car they want, but they feel the opportunity for more future income is worth the delay.

3. The Smith Textile Corporation needs some new equipment in one of its plants. The company believes that if it buys the new equipment, production and profits may increase. By using its current profits for the equipment instead of for salary increases and dividends, the company hopes to be able to offer greater benefits in the future.

RESTATEMENT: Businesses often save a large part of their income to use for improvements, expansion and other growth activities.

H. UNDERSTANDING: A decision to invest or expand depends on many factors; some conditions can be controlled by a business, others are unpredictable.

1. The Giant Paper Corporation has developed a new line of paper products using a special chemical process. Giant Paper plans to invest several million dollars in the new products. Many such profitable investments are the result of new technologies, inventions and markets. New developments such as these cannot be predicted by a company.

2. Miss Valdez is an economist for her company. She has advised management to cancel all expansion plans for the coming year because she predicts a recession, or downturn in overall business activity. Businesses do not like to invest when they think consumer buying will decrease, as it often does during a recession. Pessimism about the future of the economy discourages investment.

3. Mr. Lyon had planned to borrow some money to buy new wagons and equipment for his traveling circus. Unfortunately, when he went to his bank, the loan officer told him that the bank was "loaned up" — no funds were available for his loan. Later other banks had to refuse Mr. Lyon also. Without the loan he needs, Mr. Lyon has been forced to give up his investment plans. The availability of loanable funds has a major effect on investment because so many projects depend on borrowed money.

RESTATEMENT: Investment plans often change because they depend on many uncertain factors.

I. UNDERSTANDING: The *law of diminishing returns* influences business decisions. This economic principle states that beyond a certain point, a business receives less and less value from each extra amount of the same input it adds to its operations.

1. A teacher wants to show his class how the "law" of diminishing returns works. He tells them a story about Frank, a boy who loves to eat hamburgers. Frank can eat three hamburgers easily, but each additional hamburger he eats is less and less satisfying. Frank gets diminishing returns — and eventually a sick stomach! — from each new hamburger.

2. The chef of a famous restaurant is making a stew. He hires one helper to cut meat and peel potatoes. He hires a second helper to peel carrots and help stir the stew, but now the kitchen is getting a little crowded. With each new helper the chef gets less and less done. Finally, with ten people running around the kitchen, the chef stops adding new helpers, but too late, the stew is ruined. The familiar saying "Too many cooks spoil the broth" is one example of the law of diminishing returns at work.

3. The law of diminishing returns operates in all areas of life, not just in business. In the area of population the law has particular importance. For example, to a fixed amount of farmland the addition of more people can increase production — up to a point. Eventually, the additional productivity gained from each new person will be less and less because the new arrivals crowd the land and prevent the other workers from performing their tasks. A point may be reached where total production actually falls. This is the unfortunate effect of the law of diminishing returns in overpopulated countries.

RESTATEMENT: Beyond a certain point the value gained from some resource diminishes as more and more of the resource is added to a process involving other, limited resources.

J. **UNDERSTANDING:** Businesses are always trying to increase their profits by reducing their costs, as measured by the average cost to produce one unit. Businesses strive for efficiency as one way to reduce their unit costs.

1. Sally is responsible for watering the plants in the classroom. She has learned that she can finish her job more quickly by using one large jar of water once instead of running back and forth to the faucet with a small cup.

2. Mr. Perry recently installed a new milking machine on his dairy farm. The machine has enabled Mr. Perry to milk his cows much more quickly. In fact, he now plans to buy several more cows because his milking time has been so reduced. Many business activities become more efficient through the use of machines.

3. Playthings, Inc., a toy manufacturer, has recently hired an efficiency engineer to make a study of company procedures and operations. Using the information from his study, the expert may be able to recommend changes and improvements which will help Playthings become more profitable.

RESTATEMENT: An efficient business saves time, money and resources. By cutting unit costs through efficiency, a business becomes more profitable and productive.

K. **UNDERSTANDING:** There are two types of business costs: the fixed and the variable costs. Fixed, or overhead, costs are those which remain the same even if production is zero. Variable costs are all the remaining costs; they tend to vary depending on the level of production.

1. A third grade is pretending it is planning to open a candy store. The teacher asks the children how they would set up their store. At first the children say they want the biggest store possible with fancy glass cases and candy jars. Later they see that they might not be able to keep up such a fancy store. Because they would need most of their money to maintain their supply of candy, they could not afford to buy, clean and repair all the pretty showcases. Their fixed costs would be too high.

2. Mr. Cabelli's restaurant has been losing money for the past few months. As Mr. Cabelli knows he cannot change his fixed costs, he plans to reduce some of his variable costs to help save money. He is going to cut out some items on his menu to reduce food and labor costs.

3. Most businesses have certain fixed costs which they must meet no matter what their level of production. These are such costs as rent, maintenance and depreciation. Many of these companies stay open 24 hours a day because they realize that by using their plant constantly, they can produce more and thereby reduce the impact of their fixed costs per unit produced.

30 **RESTATEMENT:** Businesses have two different kinds of costs — the fixed and the variable costs.

L. **UNDERSTANDING:** Businesses often cut costs through specialization. With specialization each worker or machine performs one basic function in a particular area rather than several functions in many areas.

1. The children in the fifth grade have each been assigned one chore to do in the classroom: Lisa will clap the erasers, Charlie will clean the paintbrushes, etc. The children see that they can finish their chores faster when they divide the work because each person saves time by learning his one job well. The children also save time because they do not repeat each other's work and they do not have to waste time switching from one job to another.

2. Specialization does save time and money, but it can also have some unwelcome side effects. As a rule, people want to view their work as necessary and important. With specialization, though, the steps in a production process can be so split up that the individual worker does not feel his particular job is worthwhile or challenging. This type of alienation in specialized work has been noted in the industrial assembly line.

3. Interdependency is another result of specialization. When someone specializes in the production of one item, he must depend on trade to provide all the other goods and services he needs. Brazil, for example, depends on other countries for some necessities because so much of her economy is devoted to producing just coffee.

RESTATEMENT: Often more and better work is done when each worker or machine performs one job rather than many jobs.

M. **UNDERSTANDING:** Competition between businesses encourages production efficiency and quality.

1. For a while Tony was the only person selling hot dogs and drinks at the school football games. Throughout a game Tony could relax inside his hot dog stand because he knew people would have to come to him to get food. Lately, however, Jane has begun to sell food at the games too. She gets many customers by walking up and down the bleachers. Tony has had to start walking also to keep his business.

2. A monopoly exists when some business or person has exclusive ownership of the supply of some good or service. A monopoly business can set prices at the level most profitable to itself. For example, imagine a group of vacationers stranded on an island after a bad storm. Only one person has a boat. This person has a monopoly ferry service. He can charge any fee he wants to take the stranded people to the mainland because he alone has the ability to supply that service.

3. Many people feel that the most efficient economy would be the one most nearing a state of "perfect competition." By definition, a state of perfect competition exists when no economic unit is so powerful that its actions alone can greatly affect market prices. In fact, a system of perfect competition is almost impossible to achieve. For such a system to exist, there would have to be many buyers and sellers in each business situation. All buyers would have to be knowledgeable, selective and fair, so that each product is selected on its merits alone. Sellers would also have to operate independently and impartially.

RESTATEMENT: Businesses tend to improve their products and operations when they are competing with other businesses.

FORMS OF BUSINESS ORGANIZATION

A. UNDERSTANDING: Individual proprietorship, partnership and corporate and cooperative ownership are the major forms of business organization.

1. A sixth grade examines various businesses in the local community. The children discuss ways in which the structure of a business might affect its management and operations.

2. Debbie owns and manages a small grocery store; she is an individual proprietor. Jim manages a supermarket which is one of a chain of food stores. Jim's store is part of a large corporation; he does not own his store, he is its manager.

3. The Hospitality Motel System, Inc. has millions of dollars in assets and motels throughout the country. This large corporation, owned by thousands of people, was once a small, one-man business.

RESTATEMENT: Businesses can be owned by individuals, by several people working together as partners or by a number of people sharing ownership in a corporation or cooperative.

B. UNDERSTANDING: In a proprietorship one person provides the work and capital needed to own and operate his own business. He may keep all his profits, but he must also assume responsibility for all his losses.

1. Barbara runs a popcorn stand. She uses her allowance to buy popcorn, butter and paper cups. On some days she sells all her popcorn and makes a profit. On other days she cannot sell any popcorn and loses money when her popcorn goes stale.

2. Mr. Davis owns and operates the corner drugstore. With careful management and an awareness of customer needs, Mr. Davis has been able to maintain a prosperous business.

3. The small, self-owned business is the most common form of business in the United States today. Despite the fact that individual proprietors often work harder, longer and for less income than people who earn wages, new one-man businesses are opening (and closing) continually throughout the nation.

RESTATEMENT: When one person owns his own business, he furnishes all the resources and takes all the risk of profit or loss.

C. UNDERSTANDING: In a partnership two or more people own and operate a business together. They agree upon some division of the work and capital needed to run the business and also arrange to share debts, losses and some percentage of the profits.

1. Keith and his sister recently bought some strawberry plants with their combined savings. Keith will be responsible for planting and maintaining the plants, while his sister tries to sell the strawberries they produce. They have agreed to share any profits or losses equally.

2. Dr. Rosen has decided to combine his practice with another doctor in the neighborhood. As partners the two doctors plan to share office space, supply costs and some of their profits.

3. The owner of a successful one-man business often finds, sooner or later, that he needs more capital to help finance his expanding operations. Bringing in a partner with funds to invest is one way to get the necessary capital. The original owner gives up his sole right to all profits, but he gets the money he needs without going into debt.

RESTATEMENT: When people own a business as partners, they pool their resources, work together and succeed or fail as one, according to some mutual agreement.

D. UNDERSTANDING: A corporation is basically the legal equivalent of a person; it can sue and be sued; own property and incur debts. Ownership of a corporation can be shared by many people, but owners are not liable for a corporation's activities beyond the limit of their individual investments in it.

1. Mr. Riley has owned and operated a private school for 15 years. Now he is considering incorporating the school and selling shares of stock to help raise the money he needs for expansion. Mr. Riley plans to keep a majority of the shares (so he will still be principal owner), but by selling the rest he hopes to get the money he needs.

2. Miss Johnson manages the suburban branch of a large incorporated department store. She is officially accountable to the store's owners (its stockholders) for her management decisions, but as long as she does not prove to be incompetent, she is free to set many of the store's policies.

3. Mr. Miller recently became a part-owner of the ABC Publishing Co., Inc. by buying 100 shares of its stock. Mr. Miller thinks that the ABC Company is going to grow in the next few years, and he hopes to get some dividends from the company as a stockholder. If the business fails, Mr. Miller will lose only the amount he has invested because the ABC Company itself is responsible for any losses it incurs. Mr. Miller cannot be asked to pay for the debts of the ABC Company.

RESTATEMENT: Many people can share ownership of a corporation without necessarily taking part in day-to-day management decisions; an owner can share in the corporation's earnings, but can lose only his investment in the corporation.

E. UNDERSTANDING: A cooperative is a special type of corporation owned by people with some common interest. Typically, each member buys at least one share in the cooperative and receives a fixed rate of return, perhaps 6 percent per year for each share owned. Any profit remaining after this fixed rate has been paid is divided among members according to each one's patronage of the cooperative.

1. A class talks about how it might run a retail cooperative selling school supplies. The owners (members of the class) would buy supplies from the store at the same price as other customers, but they would each get some share of any profits made by the store. The more purchases a class member makes at the store, the bigger his share of the profits.

2. The families living on Maple Street have decided to start a food cooperative. All of them have a common purpose — the need to buy food — and they hope that by organizing as a group they can buy their food more cheaply. The cooperative will be able to buy food at wholesale prices because it can buy in volume.

3. As a business form, the cooperative has found particular popularity in the field of agriculture. Many farmers have formed marketing cooperatives to lower their selling costs and improve their bargaining position in the market. By combining their produce, the farmers can attract volume buyers and avoid duplicating distribution costs. Farmers also may share the expense and use of a costly capital good, such as a creamery or grain elevator.

RESTATEMENT: People with some purpose or activity in common may form a cooperative to obtain the benefits of working together as a group.

F. UNDERSTANDING: Each form of business organization has certain advantages and disadvantages. The importance of these factors varies depending on business circumstances.

1. Mrs. Brown owns a small tobacco store. To raise the money she needs to pay increased costs, Mrs. Brown plans to become partners with a neighbor who has money to invest. She would like to remain sole owner of the store, but in her situation she feels the best way to raise the money she needs is to bring in a partner.

2. In the last ten years Mr. Blake's personnel consulting business has grown rapidly. Mr. Blake plans to incorporate his business to be sure it will continue if he dies or becomes seriously ill. The corporate form of business is designed to enable a business to stay in operation regardless of changes in ownership.

3. Liability is an important factor in the determination of forms of business. An individual owner is totally responsible for the debts of his business, even if he must sell his own car or home to pay the debts. Partners share this unlimited liability; each one is completely responsible for all business debts. In a corporation or cooperative the liability of each owner is limited to a loss of the money he has invested in the company, but owners sacrifice some control over profits and management practices.

RESTATEMENT: A business will try to adopt the form of organization which best suits its needs and circumstances.

A. UNDERSTANDING: Money is a tool; it serves as a medium of exchange, a standard of value, a store of value and a standard of deferred payment.

1. A fifth grade discusses how difficult shopping might be without the common denominator — money. Money enables people to compare the values of different items by comparing the prices. For comparison purposes money serves as a standard of value.

2. Helen would like a red dress for her doll instead of the green one she now owns. Martha has a red dress, but she does not want to trade for the green. With money Helen can buy the red dress from Martha, who can, in turn, use the money to buy something she wants. This simple example shows the convenience of money as a medium of exchange.

3. Mr. Lewis owns and operates a furniture store. He is saving some of the money he receives from sales to use later as the down payment on a new house he wants to buy. Mr. Lewis is using money as a store of value; he can easily save the "value" he gets whenever he makes a sale because the "value" takes the form of money. (Someone could give Mr. Lewis a cow in payment for a table, but it would cause some trouble to "save" a cow, and Mr. Lewis would have to be sure he could use the cow to pay for the house he wants!)

RESTATEMENT: Through the use of money people can trade, compare values, save and buy on credit, more easily than they can without money.

B. UNDERSTANDING: The value of money is based on its acceptability, not on any special characteristics of the items used as money.

1. A class discusses what might happen if everyone in the world suddenly stopped believing he could use his money freely to buy the things he needs and wants. Even gold would have no value if no one wanted to accept it.

2. Gary has a Swedish coin. He knows that the coin cannot be used as money in the United States because most people will not accept it.

3. Before the 1860s there was no generally accepted national currency in the United States. Trade between regions was often difficult because merchants in one area were never sure that their particular kind of money would be accepted in another area.

RESTATEMENT: Money has value to the extent that people believe it will be accepted whenever they need to use it, not because the substance used as money has some special worth.

C. UNDERSTANDING: It is important for the value of money to stay reasonably stable. Money value is reflected in prices and costs; in a period of inflation prices and costs are rising, in a period of deflation they are falling.

1. Arthur would like to wait until next year to buy a car, but he feels that he should buy today because he knows prices are generally rising — the economy is experiencing inflation. When people cannot depend on a stable money value, their spending and saving habits become unsure. The uncertainty caused by inflation (or deflation) undercuts the proper functioning of money as a tool of trade.

2. Inflation occurs when the public and government want to spend too much money on too few goods and services. Demand for goods and services may increase because of wage hikes, government spending and many other reasons. Unless businesses can keep up with the demand by expanding and producing more, inflation will result.

3. When shopping last week Mary noticed that the price of most items had risen quite a bit since last year. However, Mary was looking for a color television and she was glad to see that the cost of most color televisions had actually gone down. In a period of inflation, not all items increase in price. Some may stay the same price, or even become cheaper, perhaps because of an increase in supply or a technological advance.

RESTATEMENT: Using money effectively and confidently is difficult in an inflationary or deflationary period.

D. UNDERSTANDING: The supply of money is generally defined as all currency and coin in circulation (outside of the Treasury, the Federal Reserve and commercial banks) and all demand deposits (money in checking accounts).[1]

1. A second grade looks at pictures of the different coins and bills used as money in the United States. The children learn about the different sizes, shapes and values of the money.

2. Larry has $5 in cash at home and $20 in a checking account at his bank. His total supply of money is $25.

3. Jean uses a dime to call a friend, but she writes a check to pay her telephone bill each month. She finds both types of money convenient for making and receiving payments.

RESTATEMENT: The money supply is made up of coins, bills and checking account deposit money.

[1]Money deposited in savings accounts may be considered part of the money supply, but traditionally, this money is excluded because it does not change hands as actively as the other components of the money supply.

E. UNDERSTANDING: Demand deposits make up the major portion of the money supply, approximately 76 percent[2]

1. A fourth grade practices writing checks from an account in an imaginary bank. They learn that checkbook money can be as convenient as cash for making payments.

2. Every two weeks Roger receives his paycheck at the government agency where he works. Later he goes to his bank and deposits the check in his checking account. Roger uses this account for all his major expenses, using his cash-on-hand only to pay for small items.

3. A manufacturing company in Dallas has written a check to send to a supplier in Boston. How is the check processed after the supplier receives it? This check, along with most of the millions of other checks written each day, will be processed by the Federal Reserve System. Here is how the process works: the supplier will deposit the check from Dallas in its checking account at a Boston bank. The value of the check is credited to the supplier's account. This bank sends most of the checks it receives to the Federal Reserve Bank of Boston where its account is credited for the amount of the checks. At the Boston Fed sophisticated computers sort and record these checks and those received from other banks. Checks written in the Dallas area (including the check we are following) will be shipped to the Federal Reserve Bank of Dallas. There the checks will be sorted again to be returned to the banks maintaining the accounts for those checks. These banks will be charged for the amount of the checks by the Dallas Fed. The banks, in turn, will charge the accounts of their customers who wrote the checks, in our case, the manufacturing company.

RESTATEMENT: Checking account money makes up about three-fourths of the total money supply.

[2] Calculated from Federal Reserve figures cited for January, 1974 as published in the March, 1974 issue of the Federal Reserve Bulletin pp A15 and A16

F. UNDERSTANDING: The remainder of the money supply consists of coin (3 percent) and currency (21 percent).[3] The Treasury Department is responsible for the actual printing and coining of money; the Federal Reserve System and banks provide the means by which money is placed in circulation.

1. A third grade talks about the way in which newly printed money reaches the hands of the public. They learn that new money is printed at the Bureau of Engraving and Printing in Washington, D. C. and is sent to the different Federal Reserve Banks throughout the country in the amounts each is expected to need to fill orders for cash from banks in its district.

2. A teacher tells his class how they can tell which Federal Reserve Bank first issued a particular bill by looking at the black seal to the left of the portrait. He shows them a bill which came from the Federal Reserve Bank of New York. Its name appears in the seal.

3. Jerry wants some cash to buy presents at Christmas time, so he cashes a check at his bank. He may not know that his bank is a member of the Federal Reserve System and orders its cash from the Federal Reserve Bank in its district. In busy times banks need cash because their customers want it; in quieter times banks may not need so much cash. They send their excess cash to their Federal Reserve Bank for deposit. The ebb and flow of coin and currency between banks and the Federal Reserve helps to make sure that there is always enough cash to meet the needs of the economy.

RESTATEMENT: The Treasury Department, the Federal Reserve System and banks all play a role in the processing of coin and currency.

[3]See footnote 2 of Money and Credit

G. UNDERSTANDING: The Federal Reserve System serves as the central bank of the United States. Through monetary policies the System tries to maintain the amount of money and credit needed by the economy.

1. A class visits the Federal Reserve Bank in its district. There they learn that the Federal Reserve is unlike other banks. It does not offer checking or savings accounts to individuals, but serves as a "bank for banks" and a "bank for the government." During their visit the children see the Money Department, where money is sorted and counted; the Loan and Credit Department, where loans are made to banks; and the Check Collection Department, where thousands of checks are processed each day.

2. There are 12 Federal Reserve Banks and 24 branches located in major cities throughout the United States. Each is responsible for providing financial services to the banks in its district which belong to the Federal Reserve System. The services member banks receive are much like those which people receive from their local banks - loans, cash, check processing and safekeeping, for example.

3. The Federal Reserve System was established by an Act of Congress in 1913. The Act gave the System certain powers which enable it to influence indirectly the supply of money and credit in the economy. There are three major tools available to the System: the discount rate (the interest rate charged banks for loans), the reserve requirement (percentage of deposits member banks must keep on reserve at their local Federal Reserve) and the buying and selling of government securities in the open market.[4]

RESTATEMENT: The Federal Reserve System helps to make sure our economy has an adequate supply of money and credit.

H. UNDERSTANDING: The use of credit is a convenience in the day-to-day conduct of business. A person or business buying with credit agrees to pay in the future for a good or service received in the present.

1. During Show and Tell Pat shows the class a picture of the new car her family is enjoying while they pay for it "on time." The class talks about the convenience of using a product while paying for it.

2. Last January Mrs. King's furnace suddenly stopped working. The repairman told her she would have to buy a new furnace, but Mrs. King did not have enough money for the purchase. Luckily, she was able to buy the furnace on credit, paying for it while keeping her house warm.

3. Crop farmers usually receive most of their income at one time — the end of the harvest season when they sell their crops. They must stretch this money throughout the coming months until the next harvest. Sometimes they rely on credit to meet some of their expenses.

RESTATEMENT: The ability to "buy now, pay later" is often a convenience for both individuals and businesses.

[4]For more information on the Federal Reserve System and monetary policy, write to the Bank and Public Information Center, Federal Reserve Bank of Boston.

I. **UNDERSTANDING:** Banks are a major source of credit; they serve as financial intermediaries by using funds received from depositors to make investments and loans.

1. Many people believe banks are simply safe places to save money. A teacher explains to her class that banks also lend money to businesses and individuals. A loan of money is a form of credit because the borrower can use the money right away while paying for it later. Just as people can buy a car or washing machine on credit, people can "buy" money on credit.

2. Ted and his father plan to go to a local bank to borrow some money to buy cattle. Ted will raise the cattle for his 4H project. When the cattle are sold, Ted will use the proceeds to pay off his loan. He must pay the bank the full amount borrowed plus interest.

3. There are two types of banks: the commercial banks and the thrift institutions.[5] The differences between these two types of banks are beginning to disappear, but their activities and services are still fairly separate. The commercial banks are sometimes called "full-service" banks — they offer checking accounts, savings accounts and other everyday financial services. These banks are known for providing consumer and business loans. The thrift institutions are more concerned with attracting personal savings. They usually offer just savings accounts and by law are allowed to give a higher interest rate on these accounts than commercial banks. They specialize in mortgage loans.

RESTATEMENT: Many businesses and individuals borrow money from banks.

[5]Thrift institutions include savings banks, mutual savings banks, cooperative banks and savings and loan associations.

J. UNDERSTANDING: Loanable funds are available from other institutions, such as life insurance companies, investment banks, credit unions and finance companies.[6]

1. The teacher asks each student to locate one place in the community where people can borrow money. The class is surprised at the number and variety of places.

2. The Thompsons have been paying premiums on their life insurance policy for many years. Now when they plan to send their daughter to college, they have arranged with their life insurance company to borrow part of the sum they need for tuition from the accumulated cash value of their policy.

3. Miss Logan wants to borrow $100 for her upcoming summer vacation. She plans to borrow the money at the credit union she recently joined. A credit union is a cooperative organization set up to make small personal loans to its members. Every member buys at least one share in the credit union and can then apply for a loan, which will be reviewed by a selected committee.

RESTATEMENT: Money can be borrowed from many different credit institutions.

K. UNDERSTANDING: Interest is the price paid for the use of borrowed money; it is often expressed as a percentage of the amount borrowed.[7]

1. Donald has just deposited $10 in a savings account at his bank. In effect, Donald is allowing the bank to use his money as long as it is deposited in his account. The bank will pay him interest for the use of his savings.

2. Mr. and Mrs. Stone want to borrow $1,000 to pay for a proposed addition to their home. They plan to visit several different credit institutions to compare the interest rates and repayment plans each one can offer. They would like to pay back $1,000 in two years with the lowest possible interest charge. (The interest rate reflects what percentage of the $1,000 must be paid as interest each year.)

3. Before making a loan, a credit institution usually investigates the credit rating of the borrower; that is, the borrower's record of performance in meeting his financial commitments. The interest rate charged a customer varies according to his credit rating.[8] The lender will also consider the borrower's plan for using the money. Is he proposing a risky business expansion or does he want to buy a car? A risky plan might mean a higher interest charge. The demand for money at the time will also affect the interest rate. If many people are trying to borrow money, the interest rate is likely to be higher than it would be at a time of low demand. Finally, the lender will consider whether or not collateral is offered to back up the loan. Collateral is property, such as a car or house, offered to guarantee a loan. A loan with collateral is less risky for a lender because the property can be sold if the loan is not repaid.

RESTATEMENT: People typically pay a price (interest) for the opportunity to use borrowed money.

[6]Of course, money to borrow is not just available from institutions. At times, people can borrow money from small stores, pawn shops, friends, relatives and many other places.

[7]A borrower views interest as the price he must pay to use borrowed money. A lender, on the other hand, views interest as the income he has earned because he allowed someone else to use his money for some period of time.

[8]Well-known businesses with excellent credit ratings are charged what is called the *prime rate* — the lowest interest rate generally available to businesses.

A. UNDERSTANDING: In a mixed economy, such as that of the United States, some goods and services are provided by government and others by private enterprise.

1. At a national park a third grade sees plants and animals living in their natural environment. The government maintains the park so people can enjoy wilderness areas. Many private businesses raise plants and animals for other reasons. Farmers raise animals and crops for food, lumber companies plant trees for wood and pet shops keep animals to sell as pets.

2. George's family is building a new home. George learns that his family must pay a private company to build their house, although the government will pay for the construction of the proposed super highway which will run nearby.

3. *Socialism* and *communism* are terms describing political and economic systems that assign government a major role in business.[1] There are different theories of both socialism and communism, but in both types of systems government usually owns and operates the means of production and plans most economic decisions. In communist theories this idea is frequently taken one step further in that government controls all private property, not just the means of production. To date, no economy has achieved a state of full-fledged communism.

RESTATEMENT: In the United States both government and private businesses help to provide the goods and services people need and want.

[1]The reader should keep in mind that all systems described as "socialist" or "communist" are not exactly alike. The policies of two "communist" countries, for example, can be quite different.

B. UNDERSTANDING: In the United States the goods and services provided by government are mainly those which, for one reason or another, cannot be supplied adequately or practically by private enterprise.

1. A class learns that the government provides the money to pay their teachers and operate their school. Government tax money is used for public education because better informed citizens benefit all of society. If each family could decide whether or not to "buy" schooling; some would choose not to buy it. The children of these families would be less informed; a loss to them and to society.

2. Some services are provided by government because they apply to a whole group of people rather than separate individuals. To provide such a service to one person means that it must be provided to all. The country's defense is one example; the government taxes everyone to pay for the nation's security because everyone is protected equally.

3. Government also pays the salaries of policemen because it is easier to provide police protection when everyone in the community pays for the service with tax dollars. Police services could possibly be provided simply by private companies, but there are too many problems with such a system. Imagine a policeman, running to answer a call for help in an emergency and then asking the victim whether or not he was a paying customer!

RESTATEMENT: Some goods and services are provided by government because they are not easily supplied by private businesses.

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C. UNDERSTANDING: Some goods and services provided by private enterprise are regulated by government in an attempt to protect the interests of the general public.

1. A class is learning about borrowing money. The teacher tells them that the "Truth in Lending" law was passed by government to help people get all the information they need when they want to borrow money. Any institution which lends money must tell each borrower the *finance charge* for a loan as well as the interest rate expressed as an *annual percentage rate*.

2. Most towns and cities have set up zoning laws to help make sure their communities will grow in an organized and attractive way. Businesses may locate only in certain areas designed for their type of operation. Often separate zones are set aside for private homes, manufacturing companies and retail stores.

3. Antitrust laws are designed to protect the interests of the small businessman and the consumer by helping to foster competition. These laws help keep businesses from becoming so large they "corner the market." Large organizations are more responsive to society when they operate in a competitive atmosphere.

RESTATEMENT: The government can exercise some control over business for the benefit of the public.

D. UNDERSTANDING: Wars, depressions and other national crises tend to increase the scope of government controls in economic affairs. Government can provide the total organized effort needed in an emergency.

1. Last week a fierce hurricane hit the coast of Florida causing thousands of dollars worth of damage. The government gave immediate disaster relief — directing evacuations, setting up first aid centers and organizing communications.

2. During World War II the government set up a strict system of rationing to help make sure enough of needed materials, such as gas, rubber and food, were reserved for the war effort. Government price controls may also be put into effect during times of price instability and resource shortage.

3. The role of government in economic life greatly increased during the Depression of the 1930s when the government tried to find solutions to such problems as massive unemployment, low levels of business activity and bank failures. Many government agencies and programs have been created during a national crisis. Once in effect these programs tend to continue and grow, sometimes even after the need for them has gone.

46 **RESTATEMENT:** In an emergency the government tends to increase its role in economic life.

E. UNDERSTANDING: Besides certain goods and services government also provides the legal framework within which the economic rights of all citizens can be protected.

1. Susan learns that she cannot take her friend's toy. The teacher tells her it is against the law to steal the private property of others.

2. The government has passed many laws relating to contracts and their enforcement. Contracts are a vital part of any sophisticated economic system because they provide the legal backing needed for trade agreements. Trade can be more regular and secure when both buyers and sellers know they have the protection of the law when they need it.

3. Patent laws were passed by the government to protect the rights of people and organizations to produce, use and sell their inventions. Patent laws protect against the theft of ideas, just as property laws protect against the theft of goods.

RESTATEMENT: The government is responsible for creating laws which will protect economic rights.

F. UNDERSTANDING: Federal, state and local governments get most of their funds through taxation.

1. Ellen wants to buy a book which costs $4.95. She knows the actual price will be somewhat higher after her state's sales tax has been added.

2. A gasoline tax is applied to each gallon of gasoline sold. The funds from this tax are used to build and repair public roads and, in some areas, mass transit systems.

3. The federal government gets most of its funds from taxes on income. Businesses and individuals must pay a tax each year based on the amount and source of their net incomes. The nature and source of income is important because in tax laws there are some special provisions, sometimes called "tax loopholes," which reduce the amount of tax required. For example, someone who is paying off a mortgage loan can deduct the amount of interest he pays each year from that year's income. In passing this tax exemption, Congress was acting in the belief that home ownership is desirable and should be encouraged. Most "tax loopholes" have been passed with some such social good in mind. Unfortunately, making use of these exemptions has come to have a bad reputation because they are often used only by the wealthy who have the money and knowledge to make best use of them.

RESTATEMENT: Taxation provides all levels of government with funds.

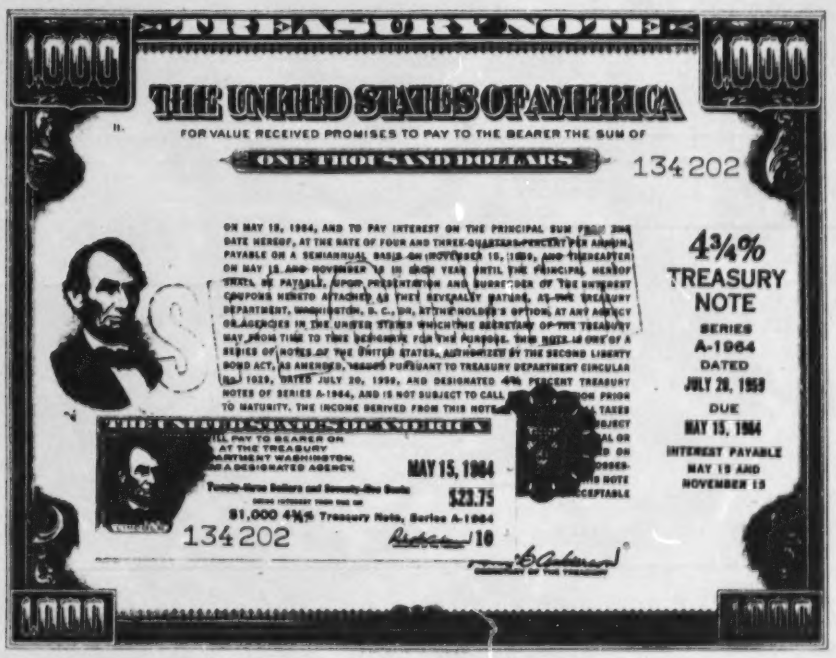
G. UNDERSTANDING: When government spending is greater than income, the government issues securities to raise the difference; the sum of all these securities is the national debt.

1. Diane has saved over $20 from her weekly allowance. She has decided to buy a United States Savings Bond as a way to earn money while she saves. She pays the government $18.75 for the bond, and in five years she can cash it for $25.

2. Mr. Cochran wants to invest the $10,000 dollars he won in the state lottery last month. He has decided to buy one of the six-month Treasury bills offered each week by the government. Savings bonds are not the only kind of security issued by the Treasury Department to raise money. There are also Treasury bills, notes and bonds. Treasury bills, with maturities of three and six months, are offered weekly; 12-month bills are offered on the average of about once a month. Treasury notes and bonds are offered from time to time as money is needed by the government. Notes have maturities of between one and seven years, and bonds, seven or more years.

3. The national debt is different from the kind of debt incurred by people and businesses. When a person borrows money, he knows he must somehow earn the money he needs to pay off his debt plus interest or else he will have to declare bankruptcy. The government is in a different position; it has the power to tax and issue new securities to pay off its debt. The national debt, then, does not have the threat of possible bankruptcy associated with private debt.

RESTATEMENT: The national debt is the amount of money the government owes people and groups who have bought government securities.



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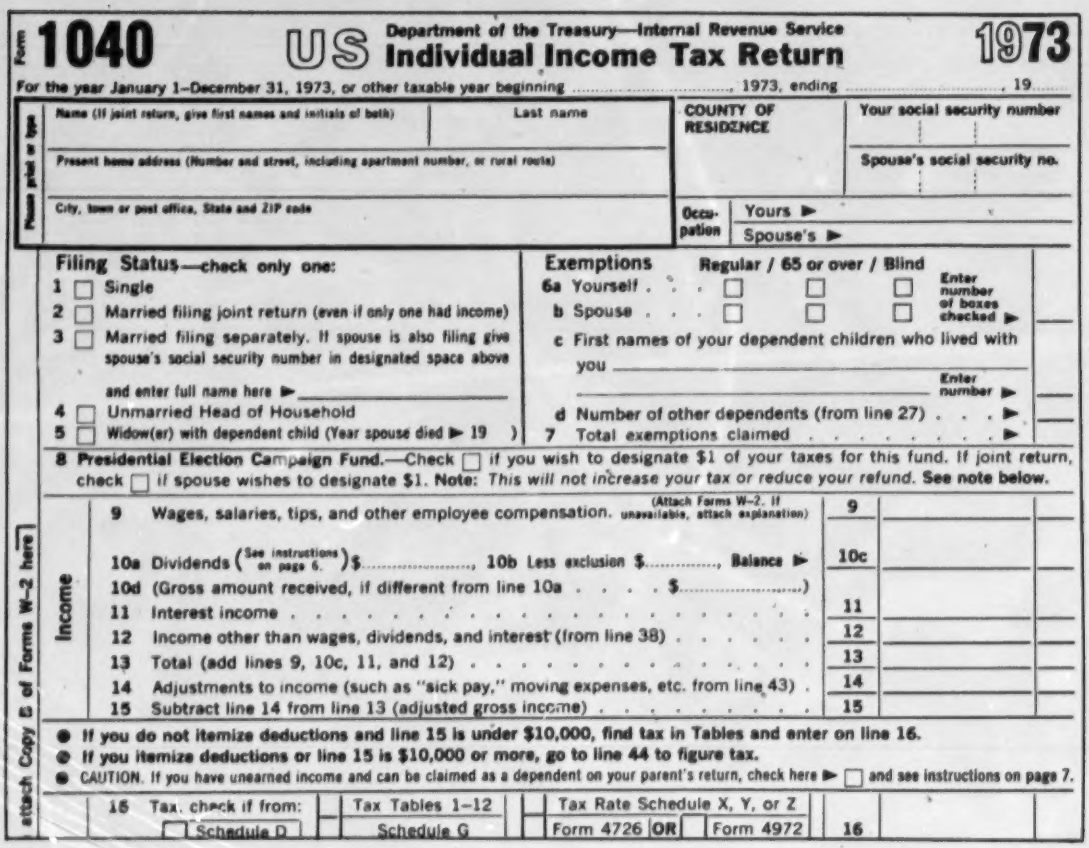
'Nevertheless, the government must be careful not to abuse its borrowing powers. Irresponsible borrowing can encourage inflation because the money borrowed will be spent by the government, thereby increasing the demand for available goods and services.



Form **1040** **US** Department of the Treasury—Internal Revenue Service **Individual Income Tax Return** **1973**

For the year January 1–December 31, 1973, or other taxable year beginning ..... 1973, ending ..... 19.....

Please print or type

Name (If joint return, give first names and initials of both) | Last name | COUNTY OF RESIDENCE | Your social security number

Present home address (Number and street, including apartment number, or rural route) | Spouse's social security no.

City, town or post office, State and ZIP code | Occupation: Yours ▶ / Spouse's ▶

Filing Status—check only one:

1 ☐ Single

2 ☐ Married filing joint return (even if only one had income)

3 ☐ Married filing separately. If spouse is also filing give spouse's social security number in designated space above and enter full name here ▶ _____

4 ☐ Unmarried Head of Household

5 ☐ Widow(er) with dependent child (Year spouse died ▶ 19)

Exemptions Regular / 65 or over / Blind

6a Yourself . . . ☐ ☐ ☐ Enter number of boxes checked ▶ ___

b Spouse . . . ☐ ☐ ☐

c First names of your dependent children who lived with you _____ Enter number ▶ ___

d Number of other dependents (from line 27) . . . ▶ ___

7 Total exemptions claimed . . . . . ▶

8 **Presidential Election Campaign Fund.**—Check ☐ if you wish to designate $1 of your taxes for this fund. If joint return, check ☐ if spouse wishes to designate $1. **Note:** *This will not increase your tax or reduce your refund.* **See note below.**

Attach Copy B of Forms W-2 here

Income

9	Wages, salaries, tips, and other employee compensation. (Attach Forms W-2. If unavailable, attach explanation)	9	
10a	Dividends (See instructions on page 6.) $....., 10b Less exclusion $....., Balance ▶	10c	
10d	(Gross amount received, if different from line 10a . . . . $.....)		
11	Interest income	11	
12	Income other than wages, dividends, and interest (from line 38)	12	
13	Total (add lines 9, 10c, 11, and 12)	13	
14	Adjustments to income (such as "sick pay," moving expenses, etc. from line 43) .	14	
15	Subtract line 14 from line 13 (adjusted gross income)	15	

● **If you do not itemize deductions and line 15 is under $10,000, find tax in Tables and enter on line 16.**

● **If you itemize deductions or line 15 is $10,000 or more, go to line 44 to figure tax.**

● CAUTION. If you have unearned income and can be claimed as a dependent on your parent's return, check here ▶ ☐ and see instructions on page 7.

16 Tax, check if from: ☐ Schedule D | Tax Tables 1–12 ☐ Schedule G | Tax Rate Schedule X, Y, or Z ☐ Form 4726 OR ☐ Form 4972 — 16

H. UNDERSTANDING: The government can redistribute private incomes through its choice of activities and methods of taxation.

1. Jeff Taylor's father was permanently disabled during the Korean War. Mr. Taylor still receives a monthly pension to help him support himself and his family. Money used to pay for government pensions is, in effect, gathered from taxpayers and transferred to people like Mr. Taylor.

2. Mrs. Fields has three small children to support by herself. Since she cannot work, Mrs. Fields has no family income. The government has made a commitment to help people who need support through its welfare programs. Tax dollars from people with relatively high incomes are used to help people with little or no income.

3. In the United States the personal income tax is *progressive* because the proportion of income taken as a tax increases as income increases. The greater a person's income, the greater the percentage he must pay the government to support its activities. On the other hand, a sales tax is usually *regressive*. It takes a greater proportion of the incomes of the poor than it does the incomes of the rich because the poor must use a greater part of their incomes to buy basic goods and services.

RESTATEMENT: The government can, in effect, transfer money between people in society so that some are paying for government benefits given to others.

I. **UNDERSTANDING:** To help maintain a steady, even rate of economic growth, the government can use fiscal policy — that is, deliberate changes in taxation or spending policies.[3]

1. Jack is a salesman for a large electronics firm. Last month he noted an increase in the amount of tax withheld from his paycheck. Jack's extra tax is one small part of the government's fiscal policy. The government's tax policies influence the economy because they affect how much money people have to spend. When taxes are lowered, people have more money to spend — economic growth is encouraged. When taxes are raised, people have less money — growth is slowed, provided government spending does not increase with the increase in tax income.[4]

2. The Poole Office Supply Co. sells typewriters, desks and other office equipment. Recently, Mr. Poole received a big order from the government to outfit the offices of a new community action program. Government spending affects the economy in many ways. When spending goes up, the economy grows. People who receive money or business from the government have more money to spend. When the government reduces its spending, growth is also reduced.

3. Government spending has too great an effect on the economy to be used simply as fiscal policy. To cut back a vital or worthwhile program just to slow economic growth would be senseless. In the same way, to create an unneeded new government program just to stimulate the economy is also undesirable. For such reasons government spending is a limited fiscal policy tool.

RESTATEMENT: The government can affect the economy through its fiscal policies.

[3]Troublesome economic disorders can develop when an economy is either growing too fast or too slowly. When growth is too fast, inflation can develop because incomes are rising so rapidly that business cannot keep pace even when operating at full capacity. Not enough goods and services are produced to satisfy the demand for them. When the economy is growing too slowly, factories are idle, unemployment grows and incomes fall.

[4]Such changes in tax rates sound easy to effect, but in practice they are not. No one likes a tax increase. Politicians realize this fact and often avoid raising taxes even when the economy is growing too fast. Also Congress works slowly. By the time a decision to raise or lower taxes has been reached, the economic situation may have changed and the decision is no longer appropriate.

J. **UNDERSTANDING:** An economy is a tightly knit unit made up of relationships between individuals, businesses and government at many levels. Because an economy is so interrelated, whatever affects one part, in some ways affects all parts.

1. A large company announced yesterday that a new manufacturing plant will be built in the area. A class tries to think of all the different ways the new plant will affect the economy of the town. Because so many new people will be moving to the town to work at the plant, the local businesses will have more customers, schools will enroll more students, banks will receive more deposits and loan demands, roads will bear more traffic and the local government will have more voters and taxpayers.

2. The influence of an economic event goes beyond those who are immediately and directly affected by it. For example, if Steven becomes unemployed, he suffers directly from the loss of income. Indirectly, though, his bank, grocery store, gasoline station and even government will also have a loss of income. A recession can result from a combination of such losses multiplied throughout the economy, with each loss adding to the losses of others.

3. As the nations of the world grow and develop, there will be an increasing amount of international trade. Rapid communications, growing demand and easy travel have made world commerce much simpler. With world trade will also come the interrelationships that trade brings. The barriers between the separate national economies of today may gradually disappear with the emergence of a new, vigorous world economy.

RESTATEMENT: The activities of the individuals, businesses and other groups in an economy affect each other because they are so interrelated.

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